

**Credit River Township
Fiscal Impact Study
February 2, 2009**

Ehlers has completed an analysis of the projected financial impacts of several future governing options for Credit River Township (the Town), including:

- 1. Incorporating Credit River as a city**
- 2. Keeping the status quo and allowing piecemeal annexation by neighboring cities**
- 3. Detaching all Town area north of CSAH 21 to Savage and/or another city**
 - a. Immediate transition, effective January 1, 2010**
 - b. Phased transition via 10-year rural service district**

There are numerous future capital infrastructure and operating budget issues that will have financial impacts on the Town, and some will present a significant cost regardless of the governing decision chosen. The following is a summary of major considerations and their estimated impacts. Please note that, unless indicated otherwise, our discussion of financial impacts refers to the Town Government, in whatever future configuration applies (e.g. City, slowly shrinking Town, or Town south of CSAH 21).

Sewer/Water/Street Project

Many of the single family homes in the northern third of the Town were built in the 1970s and 1980s on relatively small lots with individual septic systems and wells. These homes are in neighborhoods such as the Casey, Creekwood, Country Court, Westside, and Whitewood Additions. All indications are that building densities, proximity to wetlands, and aging septic systems will require the installation of municipal utility services in the foreseeable future.

With assistance from the Town's consulting engineer, Hakanson Anderson, we have estimated the average cost to install municipal water and sanitary sewer and reconstruct the street at \$45,000 per unit, in today's dollars. With 457 applicable lots, the estimated cost of this project is \$24 million. Of this amount, it is estimated that 40% would be assessed to the benefiting property owners with the remaining 60% paid from general property taxes. Assuming this improvement project was undertaken all at once and completed in 2012, the annual debt levy required to be generated from property taxes is \$1.12 million beginning in 2013 and ending in 2032 (estimated using a 20 year bond term and 5% average interest rate.)

We have not attempted to factor general utility capital costs such as wells, water towers and lift stations. We assume these costs would be funded with system connection fees and utility user fees. Connecting to Savage's water and sewer systems may be a viable alternative, but the cost here is likely to be similar to the cost of constructing Credit River systems. The major difference would be that Credit River residences connected to Savage would most likely pay higher non-resident user rates. One other factor that should be noted is that the more land that is lost to



annexation to neighboring cities, the less feasible it becomes for Credit River to create its own utility system.

From the Town's perspective, the costs for the Water/Sewer/Street Project are a constant for Options 1 and 2 and are negotiable with Savage for Options 3A and 3B. (Note: Although we met with Savage officials to obtain information for this analysis, we did not discuss detachment in any detail, nor has Savage made any indication of its willingness to accept a detached area, and on what terms.) For Option 3A, we have assumed an immediate detachment of all property north of CSAH 21 and an immediate transition of those properties to Savage's tax rate. For this option, we have also removed the Water/Sewer/Street Project from the Town's purview, assuming that this project would become Savage's responsibility under the theory that Savage would accept certain financial obligations in exchange for additional tax base and future development potential.

For Option 3B, we have also assumed an immediate detachment of all property north of CSAH 21 but a 10-year phased transition to Savage's tax rate. In this option, we assume that Credit River bears the initial tax burden of the Water/Sewer/Street Project, but that this liability decreases and shifts to Savage as the city receives increasing property tax revenues from the detachment area (due to property value growth and the gradually increasing tax rate). If the Town wishes to proceed with detachment, a phased approach seems appropriate in light of the significant tax rate difference, but also the estimated total cost to property owners for the Water/Sewer/Street Project. In addition to special assessments of \$18,000 per unit (40% of project cost), we estimate \$4,832 in water and sewer connection fees, and a minimum of \$2,000 to hire a contractor to connect the utilities from the street to the residence.

Streets/Roads

We have utilized the current Five Year Road Maintenance and Capital Improvement Plan (CIP), including projects, years, and amounts, and incorporated them into the financial model. Should the Town elect to incorporate under Option 1, we estimate that \$150,000 of Municipal State Aid (MSA) will be available annually for state-aid eligible street projects.

Under Option 3, if the areas north of CSAH 21 are detached, all future road projects in this area will be eliminated and Credit River will not be eligible for state funds. Eliminated projects would include the St. Francis/Suel Reconstruction in 2010, the Sue Ann/White Reconstruction in 2011 and the 167/169/170/Hampshire/Jennifer/Rolling Oak Reconstruction in 2012. Also, if this area is in fact detached under Option 3, the annexing community would receive additional MSA funds based on the annexed population and street needs.

Police Services

Police services are currently provided by Scott County under its statutory duties. Credit River currently does not pay Scott County for these services. Scott County Sheriff Kevin Studnicka indicated that the current level of services would remain the same whether Credit River was a Town or City. We have not recognized any increase or decrease in police service costs under any of the options.

Fire Services

Fire Services are currently provided under contract from the City of Prior Lake. Per discussions with Town officials, we have inflated Fire Contract costs by 5% annually. Under Option 3, we have reduced the Fire Contract costs because the contract formula is based on tax capacity. Since the property north of CSAH 21 constitutes 25% of the total tax capacity of the Town, under Option 3 we have reduced the fire services contract by 25%.

Public Facilities

For all three options, we have indicated that several public facilities will be necessary in the future, including:

- Land Acquisition for public facilities – 2010 at an estimated cost of \$1 million (10 Acres).
- Town/City Hall in 2013 at a cost of \$3 million.
- Public Works Facility in 2016 at a cost of \$1.5 million.

The financing mechanism for these activities is bonded debt issued for 20 years at 5% interest to be paid with future property tax levies.

Property Values and Growth

Based on current market conditions, we have increased existing property values at 2% annually beginning for taxes payable in 2010. Further, in the area south of CSAH 21, we have assumed the addition of 20 new single family homes annually, at an average added value of \$600,000. This estimate is constant throughout all options.

The Quarry Project along the northern border with the City of Savage has been reviewed and residential and commercial development assumptions have been made and included in Credit River's new growth projections in 2010 should they choose to incorporate (Option 1). The projections include a 10 year build-out timeframe, meaning that tax base from this development will be added annually from 2012 to 2021 (see Option 1 - Growth Scenarios). Options 2, 3A and 3B assume that this new tax base will not be included in Credit River's tax base in future years.

Revenues and Expenses

Beginning with projections for 2010, the financial model utilizes inflationary increases of 3% for all non-property tax revenues and 4% for all expenses. The exception to this is the fire services contract is inflated at 5% annually.

GOVERNING OPTIONS

OPTION 1 – Incorporation as City of Credit River

1. Incorporation Costs - \$75,000 to \$275,000 depending if contested or not
2. City takes on additional planning and zoning duties (estimated at \$20,000/yr.)
3. City takes on prosecution costs and also shares fine revenues with the County. Estimated net cost of \$10,000 annually (new revenue will not cover 100% of costs).

4. Eligibility for MSA Funds – estimated at \$150,000 annually beginning in 2011.
5. Cost of Sewer/Water/Street Project included and debt payments of \$1.9 million annually beginning in 2013 (\$1.12 from property tax levy).
6. League of Minnesota Cities dues may be \$2,000 higher than Township Association dues.
7. League of Minnesota Cities Insurance Trust will have slightly higher premiums.
8. No changes in Police or Fire protection costs to City.
9. No changes in other areas of City Budget.
10. Loss of approximately \$20,000 of Township road funds from County (offset by MSA).
11. As a City, Credit River may create an Economic Development Authority and have the option to use tax increment from new development to assist with infrastructure projects.
12. Floodplain and Shoreland Ordinances must be adopted.
13. Other Ordinances to adopt could include Liquor License, Charitable Gambling, Adult Entertainment and Tobacco.
14. Fiscal Disparities does not change with incorporation.
15. Quarry Area development is added beginning in 2012, with ten year build-out plan.
16. Due to Credit River's demographics (income levels, age of housing stock & tax base), it is highly unlikely that the City of Credit River will receive any substantial revenue from the State's Local Government Aid (LGA) Program.

The costs of incorporation include filing fee, Administrative Law Judge, Planning, Engineering and Fiscal Consultants, legal fees and other miscellaneous costs. The Town has previously budgeted for some annexation expenses and thus should have money set aside without having to increase its budget for 2010.

OPTION 2 – Status Quo allowing piecemeal annexation to occur by surrounding cities

1. Neighboring cities will pick off prime development sites leaving less desirable sites (existing subdivisions in need of new utilities and wetlands), further fragmenting Town north of CSAH 21.
2. Town will lose tax base over a period of years – We have projected 3% of all tax base located north of CSAH 21 tax base annually. For taxes payable in 2008, the land value of the roughly 200 acres of “quarry area” parcels is only 0.4% of the total tax base. Since this area is assessed as farmland and much of it is classified as “green acres”, the loss of this land by itself is not significant. Therefore, we have not separated out these parcels for purposes of calculating the loss of tax base but instead have included these and other similar parcels in the 3% annual tax base loss discussed above.
3. Less control for Credit River since properties in Town that are in need of development/utilities will likely petition for annexation into a neighboring city, and that city is likely to accept – leaving the Town with few options to block the transfer.
4. Town will still have to provide and fund Water/Sewer/Street project when needed with less property tax base (and no TIF) to assist with tax levy amounts.
5. Will lose out on some larger residential type developments. New tax base from Quarry Development is not included in Option 2 because the assumption has been made that it will petition for annexation into Savage.

OPTION 3 –Detachment of all property north of CSAH 21 to Savage.

OPTION 3A - Immediate detachment of all property north of CSAH 21 effective January 1, 2010, immediate transition from Town tax rate to Savage tax rate.

1. Many unknowns because it would take a negotiated agreement and two willing parties.
2. We have assumed no reimbursements between parties and no major changes to the Credit River operating budget.
3. Capital costs for the water/sewer/street project are not included in this option, again because the analysis focuses on the Town's financial perspective.
4. All future road projects north of CSAH 21 will be eliminated from the Credit River CIP. This would include the St. Francis/Suel Reconstruction in 2010, the Sue Ann/White Reconstruction in 2011 and the 167/169/170/Hampshire/Jennifer/Rolling Oak Reconstruction in 2012.
5. The scenario assumes that Savage will be responsible for Water/Sewer/Street Project and Reconstruction Projects and that Savage will pay the resulting costs with a combination of new property tax revenues, connection fees and user fees.
6. Immediate local tax rate transition from the current Town rate of 10.279% to the current Savage rate of 48.356%. We recognize that this large of an increase would pose financial and political difficulties, and have therefore developed Option 3B as an alternative.
7. No property tax sharing from the neighboring city to the Town. Although some degree of reimbursement might be negotiated, we have assumed the neighboring city would want 100% of the new taxes in exchange for accepting the costs of providing municipal services, including public utilities and street projects, to the newly annexed areas.

Information relevant to both Options 3A and 3B: For taxes payable in 2008, the tax capacity of the areas north of CSAH 21 is \$2,308,792 (25% of total Town). The amount of Town revenue generated in 2008 from this area was \$237,321. If this same tax base was located in the City of Savage, it would generate \$1,116,439, a difference of \$879,119 as illustrated below:

	Pay 2008 Tax Rate	North of 21 Tax Base	Annual Taxes Generated
Credit River Twp	10.279%	2,308,792	237,321
City of Savage	48.356%	2,308,792	1,116,439
Difference			879,119

OPTION 3B – Immediate detachment of all property north of CSAH 21, with 10-year phase in of new local tax rate via a Rural Service District

Negotiate orderly annexation agreements with neighboring city(s) for the north 1/3 of the Town. The southern two-thirds (South of CSAH 21) of Credit River remains a Township.

Option 3B is similar to 3A in that we assume an immediate detachment of all property north of CSAH 21, but different in that we assume a 10-year phased transition to the Savage tax rate. In this option, we assume that the Town bears the majority of the initial Water/Sewer/Street Project tax burden, but that this liability decreases and shifts to the neighboring city as this entity receives increasing property tax revenues from the detachment area (due to the gradually increasing tax base and rate). For example, Credit River would pay 70 % of the total annual debt service payment associated with the Water/Sewer/Street Project in 2013, 60 % in 2014, 50 % in 2015 as so on until 2020 when Credit River would no longer be responsible for any portion of the debt payments. At this time the annexing entity would be responsible for 100 % of the annual debt payments until the debt is paid off in full in 2032.

Summary of Fiscal Impacts

We have attached the following spreadsheets, charts and tables as addenda to this report:

- Spreadsheet projections including General, Roads and Bridges, Utilities, Public Facilities and growth forecasts for each of the four scenarios;
- Credit River projected tax rates 2010-2020;
- Credit River projected tax impacts 2010-2020 (\$300,000, \$500,000 and \$750,000 homes);
- Credit River projected tax impacts for detachment;
- Tax rate comparison for neighboring cities/townships; and
- Tax impact comparison for neighboring cities/townships.

The Credit River projected tax rates for 2010-2020 is probably the most helpful illustration of the fiscal impact of the scenarios on the Town itself. Keeping the status quo is the most expensive approach, while incorporation ends up being the least expensive route (with a caveat discussed below). Since detachment Option 3A most likely would not occur, Option 3B is in between the Status Quo and Incorporation scenarios in overall tax rate impact. Regarding incorporation, we would note that although the estimated cost is lowest, the new City of Credit River would also assume substantial obligations to develop and operate utility systems under this option, the cost of which may exceed the figures used in this analysis.

This fiscal impact, therefore, should serve as a reference point for the Town Board and citizens, but not as an absolute indicator of the best fiscal approach. Financial considerations must be weighed against issues of planning, control over development, and civic identity. The only absolute recommendation that we would make from our study is that keeping the status quo is not a viable option. The Town is better off taking charge of its fate, either through incorporation or a planned detachment to Savage and/or other entities.

Thank you for the opportunity to be of assistance to the Town. We look forward to discussing our report and its findings regarding each approach with you.